



THE US-CHINA BUSINESS COUNCIL

美中贸易全国委员会

**China's WTO Implementation:
An Assessment of China's Fourth Year of WTO Membership**

**Oral Testimony of
John Frisbie
President, US-China Business Council**

**to the Trade Policy Staff Committee
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Thank you for allowing me to provide testimony at today's hearing.

I would like to begin by stating up front that China's entry into the World Trade Organization (WTO) has been good for American businesses. The accession agreement has introduced significant market openings in China and, as a result, American companies enjoy far greater market access than they did five years ago.

China has cut import tariffs by nearly 40 percent; virtually eliminated import licenses and quotas; relaxed foreign ownership restrictions; and allowed American companies to participate in many sectors in which they were previously prohibited.

The initial results have been clear: American exports increased 81 percent in the three full years since China entered the WTO, compared with 34 percent growth in the three years prior to accession.

Furthermore, in the first six months of this year, China and Hong Kong combined passed Japan to become our third-largest export market, exceeded only by our free-trade zone neighbors, Canada and Mexico.

We should also keep in mind that these impressive gains to date have occurred in just the first three years of China's WTO membership. American companies have not yet fully ramped up to take advantage of the openings. Significant additional openings, mostly in services, are yet to come. We therefore expect that American goods and services companies will continue to increase their sales and operations there, thus bringing real economic benefit to the United States.

That is not to say that challenges do not exist—they do, and as our written testimony describes, some are significant. We must remain diligent and persistent in pursuing China's full implementation —both in letter and spirit—of its WTO obligations.

Our testimony is based on our own tracking of China's WTO implementation record; a survey of our membership, finalized a few weeks ago; and, in some cases, written submissions from member companies. Our written testimony has the survey results attached as an appendix. This morning I will just briefly highlight some key points from our written submission.

Overall, our assessment is that China has generally continued to make progress in its WTO implementation efforts this year.

This assessment is supported by our survey results: 57 percent of respondents rate China's implementation of its WTO commitments to date as "fair" and another 38% as "good". Only 5 percent said China was doing poorly.

Some of the positive developments over the past year include:

- In the area of goods, China is, to the best of our knowledge, meeting its tariff-reduction obligations on time. Import tariff reductions, in fact, are named as the most important beneficial outcome of China's WTO entry by our survey respondents. At the beginning of this year, as an example, information technology (IT) product tariffs dropped to zero.
- In the area of services, you will also find attached to our written testimony a "scorecard" of China's services implementation effort. Some specific developments include the expansion of 100 percent-foreign-owned enterprises to additional sectors; the opening of three cities to foreign banks ahead of schedule; and the implementation of commitments to allow foreign-invested insurance enterprises to provide various types of non-life insurance to both foreign and PRC clients.
- A last item worth highlighting on the positive side is that China agreed to delay indefinitely the release of proposed rules on government software procurement and to begin technical discussions on joining the WTO Government Procurement Agreement (GPA).

While the vast majority of our survey respondents say China is doing a "fair" to "good" job of implementing its WTO obligations, I should emphasize that "fair" to "good" is simply not good enough. As I said a moment ago, China must fully implement all its WTO obligations.

On the problem side of the ledger, the top issues cited by our companies are: full implementation of distribution rights; enforcement of intellectual property rights; local content requirements; China's standards-setting process, and transparency.

Let me touch on just the top two issues in more detail.

- On distribution rights, American companies and the US government have worked extremely well together this year to move this issue close to resolution. Full implementation of distribution rights did not occur on time last December. As we speak today, several of the problems have been resolved, but there are still concerns about restrictions on product scope; consistency across localities in the interpretation and application of the regulations; tax treatment; and clearing the backlog of applications. We need to continue to work together to bring this, arguably most important of China's WTO commitments, to full realization.
- The enforcement of intellectual property rights (IPR) remains a top problem. Although 25 percent of our survey respondents saw some improvement this past year, nearly 60 percent said they saw no change in the IPR issue. China did issue a judicial interpretation in December, designed to toughen enforcement; roughly half of those who responded to our survey question on this said the judicial interpretation had helped, but about the same number said they detected no change.

We welcome the additional IPR pledges made by China at the July Joint Commission on Commerce and Trade (JCCT) meetings, but real progress will depend on the successful implementation of these commitments by PRC government agencies. This issue will no doubt be addressed more fully by others testifying today; I simply conclude here by saying we have to see more progress from China in addressing IPR concerns.

I'll leave the rest of the problem areas to our written testimony.

Instead, I want to go back to the point I opened with. While the bulk of this sort of testimony rightly focuses on the problems, we need to keep this all in the proper context. In almost four years of WTO implementation, China has adopted policies resulting in a far more open and profitable business environment for American companies than existed before. We should reject the assertion made by some critics that China's entry into the WTO has not yielded significant benefits and results.

The issues that remain, however, are important ones, and US government and industry need to focus on these areas with our counterparts in China on a regular basis. The current annual JCCT meetings have become the primary forum for those discussions, but the irregular schedule and limited scope of the JCCT meetings leaves many concerns unaddressed. A broader, more consistent engagement is vital if we are to make progress. I would like to close by saying that our organization would be more than willing to support you in such an effort.

Thank you.